

FAMILY HOUSING

Each of the services plays a significant role in providing on-base communities for military families. That role dates to the early years of the Cold War, when DoD first confronted the task of supporting a peacetime army that included many married enlisted personnel and was subject to frequent tours of duty overseas. Today, roughly one-third of all military families in the United States live in on-base housing. Base commanders are responsible not only for family housing but "for schools, hospitals, police and fire services, child care centers, banks, roads and public works just like a mayor in any American city."⁷

Much has changed since DoD built its housing inventories in the 1950s and 1960s. Today, most military bases are located near large civilian population centers that could readily support additional military families. Reduced numbers of military personnel overseas may permit longer tours of duty in the United States, making it easier for military families--many of which now include a civilian wage earner--to put down roots in local communities.

Military families in the post-Cold War environment still face unique problems that civilian communities may not be prepared to address, such as the stresses imposed on families when the military member is deployed. Yet the most appropriate way to provide support to military families today may be through outreach programs that serve all military families--active and reserve, on-base and off-base--rather than through on-base housing. The services' role in maintaining on-base communities for military families, a role that may draw attention and resources away from their warfighting mission, may not be necessary in the post-Cold War environment.

Moreover, a reduced DoD role could offer significant savings. Cost analyses suggest that the federal government spends 25 percent more on average to provide housing units on military bases than what military members choose to pay when they obtain housing in the private sector. The potential savings from a reduced role are particularly large in the short run, since DoD's stock of housing is aging and requires a substantial capital investment if it is to be maintained.

7. John W. Shannon, U.S. Army, as quoted in Department of the Army, "Installations: A Strategy of the 21st Century" (unpublished brochure), p. 11.

Barriers to Change in the Military Services' Role

Why do the services maintain their role in family housing despite the potential savings from relying more heavily on housing allowances and private-sector housing? Tradition is one explanation: on-base housing is now an accepted and familiar way of life for military families. Another explanation is that, even though it might be cost-effective to shift DoD resources toward cash housing allowances and away from in-kind housing, such a shift is difficult to make under the current system in which appropriations for cash allowances are separate from those for DoD housing.

Under the current system, funds for constructing, maintaining, and operating family housing are provided in the family housing appropriations for each service. Funds for cash housing allowances, however, are provided in the military personnel appropriations. Management responsibilities are similarly divided. The officials in the services and in the Office of the Secretary of Defense who deal with military installations are responsible for the family housing appropriation, while those who deal with compensation and personnel issues are responsible for the cash housing allowances. Moreover, within the Congressional committees responsible for DoD authorizations and appropriations, the subcommittees that deal with military compensation issues handle housing allowances while the subcommittees that deal with military construction and installations handle DoD family housing.

That division of responsibilities makes it difficult for DoD to consider reducing its role in providing housing. The officials who deal with military compensation and personnel policies are strong advocates for on-base housing. Yet since the current appropriations structure does not permit transfers of resources between on-base housing and cash compensation, they have no incentive to ask whether an additional dollar devoted to on-base housing would contribute as much to the welfare of military families as an additional dollar of cash compensation. Consolidating funding and decisionmaking for allowances and in-kind housing might lead to better decisions and allow the services to maintain a high-quality military force while reducing their role in providing on-base communities.⁸

8. In addition, options that consolidate funding for DoD housing and housing allowances might serve as a preliminary step toward more far-reaching changes in DoD's role, such as adopting a compensation system that provides higher cash compensation to military members but charges market rents for on-base units. For a discussion of this option, see Congressional Budget Office, *Military Family Housing in the United States* (September 1993).

Alternatives to the Current System

Funding for on-base housing and housing allowances could be consolidated either by means of a revolving fund or by means of a single appropriation for family housing benefits. Either approach could lead to greater reliance on private-sector housing and reduced costs. Depending on how it is carried out, however, the revolving-fund approach could result in a larger DoD role and higher costs than would be seen under the Administration's current plan (see Table 4).

The Revolving-Fund Approach. One way to consolidate funding would be to convert family housing to a nonappropriated activity. Under this approach, which is reportedly being examined by the Army, the military services would pay cash housing allowances to all military families living in the United States, including those living in on-base housing.⁹ Members living in on-base housing would then pay their base housing office a rent equal to their allowance. The rents (allowances) would be used to pay operating costs and to make contributions to a sinking fund that, subject to Congressional authorizations, could pay to construct new units or to replace aging units on a periodic basis.

Under the revolving-fund approach, rents would be set equal to housing allowances rather than set at the higher, market-clearing level that would be needed to eliminate the current waiting lists for DoD housing. Waiting lists for DoD housing would persist and could result in pressure to provide more DoD housing. The effect of such a revolving fund on DoD's budget and on DoD's role in family housing would depend crucially on whether or not the Congress would continue to appropriate funds for family housing construction.

A Revolving Fund with Supplemental Appropriations for Investment. DoD's costs would rise by roughly \$350 million annually if a revolving fund were implemented but appropriated funds for family housing investment remained at their planned level and were used to supplement the sinking fund. That amount reflects the difference between the total rental receipts that DoD would collect (based on current allowance rates) and the cost of operating the existing on-base housing inventory. If that additional \$350 million allowed DoD to maintain a larger inventory of housing, federal costs would increase by a greater amount. The reason is that federal costs include not only DoD costs but also the interest payments made when the Treasury borrows to support DoD construction plus the Impact Aid payments made by the Department of Education to local school districts on behalf of students who

9. Paulette Walker, "Can Charging Rent Lead to Better Housing?" *The Army Times*, May 23, 1994, p. 3.

are DoD dependents living in on-base housing. Although school impact payments are also made on behalf of DoD dependents who live off-base, the payments made on behalf of those living on-base are larger. The difference between the two payments is part of the total federal cost of providing on-base housing. Moreover, because the property taxes that support local schools are included in the cost of private-sector housing, it is appropriate to consider Impact Aid when comparing the total cost of DoD housing to the cost of private-sector housing.

TABLE 4. COSTS AND SAVINGS FROM RESTRUCTURING FAMILY HOUSING
(In millions of dollars)

Option	1995	1996	1997	1998	1999	1995-1999	Long-Term Annual Savings ^a
Revolving Fund							
With supplemental appropriations ^b	-400	-350	-350	-350	-350	-1,800	-350
Without supplemental appropriations ^c	250	450	500	500	550	2,250	450
Family Housing Benefits Appropriations^d	0	0	0	0	0	0	450

SOURCE: Congressional Budget Office based on Department of Defense data.

NOTES: Minus signs indicate costs. Figures in the 1995-1999 period are in current dollars.

- Long-term savings estimates are based on savings for the federal government. They are expressed in 1995 dollars.
- Total federal costs are greater because of the cost of Treasury borrowing and the cost of school Impact Aid payments made by the Department of Education.
- Total federal savings are greater because of Impact Aid. DoD savings could be used to increase housing allowance rates by approximately 8 percent.
- This option requires a shift of \$320 million in budget authority from the Department of Education to DoD. There is no change in total discretionary budget authority.

Such a revolving fund would provide service managers with an incentive to continue to operate and maintain units whenever the cost to DoD was less than the revenue from allowances. That approach is an advantage over the current system where, according to some Army experts, low levels of funding for housing operations could force housing managers to close units even when the cost of operations is less than the cost of paying allowances.

However, such an approach would be likely to encourage the military services to provide government housing even in situations where housing allowances would be less costly. Housing officials within the services are aware that military families who live in the private sector make up the difference between their cash housing allowance and the cost of private-sector housing out of their own pockets. To avoid imposing these costs on service members, housing managers might use the revenue generated by relatively new units with low operating costs to keep older units in operation. Although this approach would reduce the revenue available for the investment sinking fund, DoD could continue to rely on the Congress to appropriate funds for construction. As a result, the sinking fund might be used primarily to pay for projects that the Congress is willing to authorize but for which it would not have appropriated funds.

A Revolving Fund Without Supplemental Appropriations. If no appropriated funds were provided for investment (whether new construction, revitalization, or replacement), DoD savings relative to the fiscal year 1995 budget request would be about \$250 million. That savings accrues because the DoD resources devoted to family housing in the United States--operations and investment--exceed the cost of paying housing allowances to the families in those units. Annual DoD savings would rise to approximately \$550 million by 1999, assuming that DoD's plans call for a level of investment that is closer to what is required to support its inventory in the long run. Assuming that this decline in resources resulted in a lower DoD inventory, federal savings would be greater.

If a revolving fund without supplemental appropriations were adopted, over the long run, DoD would spend the same amount on both the housing benefits provided to members in on-base housing and those of members in private-sector housing. The number of on-base units would fall, since managers would either have to close aging units in order to obtain funds for investment or reduce investment below planned levels.

Despite the possibility for savings, this approach suffers from some disadvantages. An important one is that, as a practical matter, it could be

difficult to ensure that no appropriations would be made and thus that costs would not rise.

In addition, even though this option might reduce DoD's role in providing on-base housing and lead to a more cost-effective mix of cash and in-kind compensation, it would not necessarily limit on-base housing to locations where that housing is worth its cost to the federal government. Because the revolving fund would not have to cover the cost of Impact Aid payments (which are in the budget of the Department of Education) and federal interest charges, it could still permit too much reliance on DoD housing. For example, although the amortized cost of capital for a DoD unit is approximately \$4,600 from a federal perspective, a DoD revolving fund could continue to operate indefinitely provided that its receipts covered operating costs plus average annual construction costs of roughly \$2,900 per unit. DoD revolving-fund managers would continue to invest in housing so long as the sinking fund could cover the cost of construction; they would have no incentive to ask whether that construction yielded a return that justified its cost.

The omission of interest costs could be resolved by requiring the revolving fund to reimburse the Treasury for the cost of borrowing funds to cover family housing investment. Although no charge would be levied against existing units, DoD would pay an annual interest charge of roughly \$1,700 per year during the service life of a unit constructed or revitalized after the revolving fund was established.

It might not be necessary, however, to include all federal costs in the revolving fund in order to ensure appropriate investment decisions. Omitted costs can be counterbalanced by omitted benefits. The omission of Impact Aid payments from the revolving fund, for example, might be offset by the fact that a revolving fund that is supported by housing allowances would also overlook some of the benefits of DoD housing. Some of the benefits would be overlooked because, as waiting lines for DoD housing suggest, DoD housing is worth more to service members than their housing allowances.

Over the long run, a revolving fund without supplemental appropriations could provide savings without lowering the quality of life for military families. DoD could emphasize cash compensation rather than in-kind housing benefits in its efforts to recruit and retain a high-quality force; savings would stem from the greater cost-effectiveness of cash compensation. In the short run, however, a revolving fund could reduce the quality of life for military families. Not all of the initial savings provided by this option are the result of improved efficiency. It would be possible, however, to protect the quality of life of

military families and make a cost-neutral shift to a revolving fund by raising housing allowances for families in the United States by an amount that offsets these initial savings. In 1999, those savings would equal approximately \$550 million, which would permit an 8 percent increase in housing allowances. With such an approach, there would be no immediate budgetary impact from the shift to a revolving fund, although the long-run savings from achieving a more cost-effective mix of cash and in-kind compensation could amount to roughly \$450 million annually.

A Family Housing Benefits Appropriation. Under this alternative, all federal funds currently spent on housing benefits for military families (allowances, family housing operations, family housing investment, and the Impact Aid payments made on the behalf of the school-age children of military personnel) would be consolidated into a single appropriation for family housing benefits. The amount of the appropriation for family housing benefits would be reviewed annually within DoD and the Congress based on the average amount requested for family housing benefits for each military family in the United States and overseas. Investment projects would continue to require Congressional authorization.

The initial average level of family housing benefits would be based on current planned funding for family housing, housing allowances, and Impact Aid. This formula would enable the department to maintain its current plan (with current allowance levels and number of family housing units) if it chose to do so. Discretionary budget authority for the federal government as a whole would not change, although the transfer of responsibility for Impact Aid payments would raise DoD budget authority and lower budget authority for the Department of Education.

In their budget requests, the military services would be permitted to shift funds among allowances, housing operations, and housing investment within a fixed average cost per family in order to achieve their preferred mix of housing benefits. To support U.S. family housing operations and to provide funds for U.S. investment, the military services could choose to rely solely on the housing allowances forfeited by military families living in on-base housing. Alternatively, DoD could choose to shift funds within the appropriation for family housing benefits in order to provide more or fewer resources for in-kind housing.

Provided that the services were free to shift resources between cash allowances and DoD housing within a fixed average cost per family, they might be expected to invest in family housing if and only if the value of the investment to service members over its life cycle exceeded the cost of the unit.

Previous Congressional Budget Office analysis suggests that over the long run the costs incurred by the federal government in providing on-base housing exceed the value of that housing to service members.¹⁰ Thus, although the services would be free to pursue their current allocation of housing benefits under this alternative funding system, they would not be likely to do so. Instead, the services' role in providing on-base housing would probably decline under this alternative, since managers would have an incentive to choose the most cost-effective form of compensation.

The immediate savings from more efficient use of resources would go to the benefit of service members (through increased housing allowances) rather than to reduce the DoD budget. The total level of resources devoted to family housing benefits (cash and in-kind) would be the same as it is under the current DoD plan; if the military services found that they could spend those resources in a more cost-effective manner, the quality of life of military families would, on the whole, increase. Over the long run, however, the benefits from DoD's use of a more cost-effective mix of cash and in-kind housing benefits would accrue to taxpayers, since DoD would find it less costly to recruit and retain a high-quality force. These savings could amount to more than \$450 million annually.

The time value of money accounts for a significant share of the total resource costs incurred in providing long-lived assets such as family housing. Under this alternative, DoD compensation managers might be expected to take account of that cost when choosing between housing investments that will provide benefits to military families in future years and cash payments that provide immediate benefits. As a result, the impact of this alternative on the number of on-base housing units and the savings resulting from the efficient use of resources could be similar to the impact of a revolving fund without supplemental appropriations and with interest charges.

One disadvantage of this alternative is that providing DoD with the ability to make trade-offs between cash allowances and in-kind housing requires a Congressional appropriation process that focuses on average cost per military family. Although that is arguably a better way to review and control housing benefits, it would require some reallocation of responsibilities within the Congress. The same subcommittees would have to be responsible for both allowances and family housing. A similar consolidation of responsibilities would be necessary within the military services and the Office of the Secretary of Defense. In addition, responsibility for authorizing the Impact Aid payments made on the behalf of DoD dependents would be transferred from

10. Congressional Budget Office, *Military Family Housing in the United States*, p. 48.

the Congressional committees that deal with education issues to the defense committees. Responsibility for budgeting for those payments would shift from the Department of Education to the Department of Defense.

However, the incentives DoD managers would face also have potential weaknesses. For example, because investment funds would not be fenced in a separate account, short-sighted DoD managers might not invest in housing even when it would be justified by the future benefits. That concern may not be valid, however, since the current system in which investment is fenced appears to have resulted over time in too large a DoD role in family housing. Although the impact of any reduction in housing allowances would be spread among all military families, the benefits from investment projects are concentrated in specific locations and can generate strong local support. That support could help to protect housing investment.